HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Saguenay CMA

CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Spring 2013

Housing market activity to moderate in 2013 and 2014[1]

After reaching their highest point in the last twenty years in 2012, housing starts will slow down. Despite this slowdown, the activity will still be relatively high thanks to employment support and the low mortgage rates.

This year, the easing of the rental market and the decrease in demand for freehold homes will incite builders to start fewer new projects. In 2014, construction in the rental segment will continue to moderate, while the more abundant supply on the resale market will continue to drive down demand for new single-detached homes.

On the resale market, the decrease in employment in 2013 will weigh

Figure 1

Source: CMHC
f: Forecasts

[1] The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents forecast ranges and risks where appropriate. The forecasts included in this document reflect information available as of April 26, 2013.

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down on Centris® sales, which should register a decrease of 7 per cent this year. Resale activity is then expected to regain strength, with sales expected to increase by 6 per cent next year. Overall, market conditions will be less tight than in previous years, which will ease the pressure on prices. From 4.6 per cent in 2012, the average Centris® price will rise by 2.9 per cent in 2013 and by 2.6 per cent in 2014.

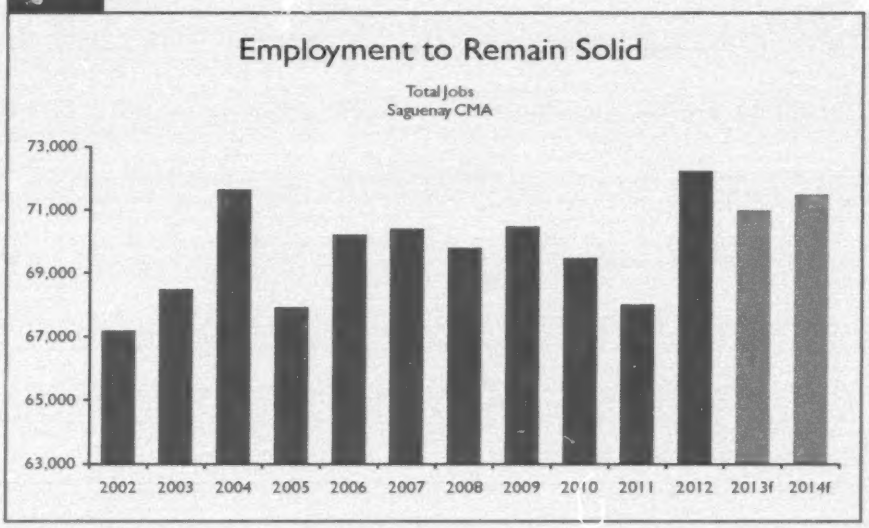
Employment to remain solid despite a slowdown

For several years, the level of employment in the Saguenay metropolitan area has been supported by direct investments in the area and by the province's major hydroelectric construction and mining projects. After having reached a peak in 2012, employment will fall by 1.7 per cent in 2013. The completion of several capital projects related to the aluminum industry, the reduction of expenses in road infrastructure and the slowdown in activity in the mining sector will contribute to the decline in employment this year. In the end, the level will decrease from 72,225 jobs in 2012 to 71,000 in 2013. Continuing projects will still keep the employment level above the one reached between 2005 and 2011.

In 2014, stronger global economic growth will help drive up raw material prices and lead to the progressive launch of capital projects in the aluminum, mining and transport sectors. These projects will boost the industrial construction sector and manufacturing, particularly original equipment makers. In addition, greater foreign demand for building material will support the wood industry.

However, government budget restrictions will weigh down on the public sector, and a slowdown in the residential construction sector will reduce hiring. Overall, a small increase of 0.7 per cent will bring employment to 71,500 jobs next year.

Figure 2



Source: Statistics Canada
f: Forecasts

The unemployment rate will rise over the next two years. First, decreasing employment in 2013, combined with a stable labour force, will push up the unemployment rate from 7.6 per cent in 2012 to 8.1 per cent in 2013. Then, employment growth in 2014 will not be sufficient to match the increase in the labour force. Consequently, the unemployment rate will keep rising and reach 8.3 per cent in 2014, which will still be close to the average for the last five years (8 per cent). All in all, the labour market will remain attractive to area residents and this will help improve net migration next year.

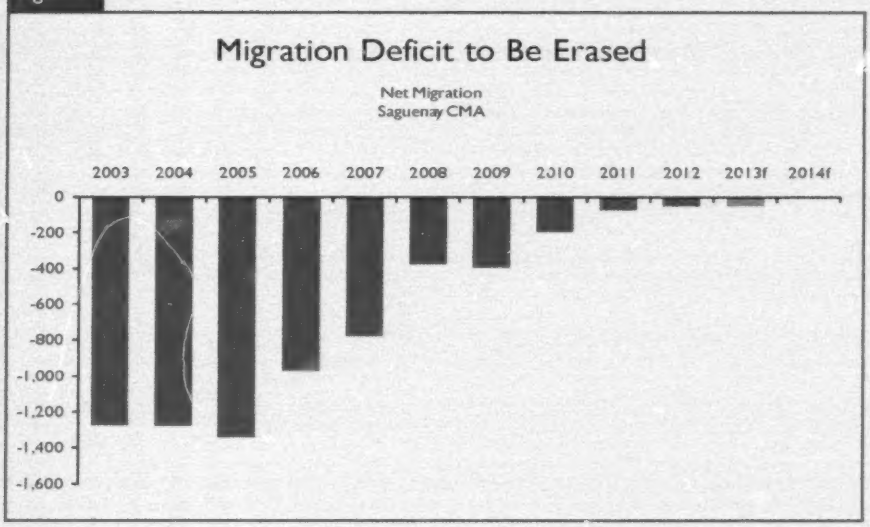
It should be noted in closing that the global uncertainty persists. Weaker or even later than expected growth in foreign demand could have an impact on the area's economic sectors. In this case, housing demand would be weakened.

Migration deficit to be erased in 2014

Improved employment opportunities in the area helped reduce the migration deficit in the past few years, which went from -972 people in 2006 to -49 people in 2012. In fact, with this reduction, the metropolitan area posted a gain of 1 per cent in its population between 2006 and 2011, compared to a drop of 2 per cent between 2001 and 2006. This demographic trend contributed to support housing demand in the area.

Given the decline in employment in 2013, net migration is not expected to rise this year and should reach -50 people. It should be noted that, despite this decline, the youth employment rate should remain relatively high. In fact, the employment rate among those from 15 to 24 years was still above 61 per cent at the beginning of 2013, near the peak for the last fifteen years (63 per cent) attained in mid-2012.

Figure 3



Source: Statistics Canada
f: Forecasts

Subsequently, with the economic improvement expected for 2014, the migration deficit will be wiped out. With young people staying or increasingly settling in the area, the demand for rental housing will be sustained.

From a longer-term perspective, the aging of the population and the resulting changes in housing needs will influence the residential real estate market. Among other things, demand for new homes is bound to slow down gradually, given the projected decrease in the number of households from 25 to 54 years. Then, the increasingly significant rise in the number of households 75 years or older will have the potential to increase demand for spaces in retirement homes.

Mortgage rates to see modest and gradual increases, but will remain low

In line with the consensus among private-sector forecasters, increases in the Target Overnight Rate by the Bank of Canada are not anticipated before mid-2014, later than anticipated at the time of the 2013 First Quarter Housing Market Outlook. This reflects the downward revisions in GDP forecasts since the publication of the First Quarter Housing Market Outlook, particularly the expectations of a slower economy in 2013. The expected delay in interest rate increases will continue to be supportive of housing market activity over the forecast horizon.

According to CMHC's base case scenario for 2013, the one-year mortgage rate is forecast to be within 3.00 per cent to 3.25 per cent with an average of 3.13 per cent, while the five-year posted mortgage rate is anticipated to be within 5.00 per cent to 5.50 per cent with an average of 5.28 per cent. For 2014, the one-year posted mortgage rate is expected to rise and be in the 3.25 per cent to 3.75 per cent range with an average of 3.42, while the five-year posted mortgage rate is forecast to be within 5.25 per cent to 5.75 per cent with an average of 5.53 per cent, consistent with higher economic growth prospects in 2014.

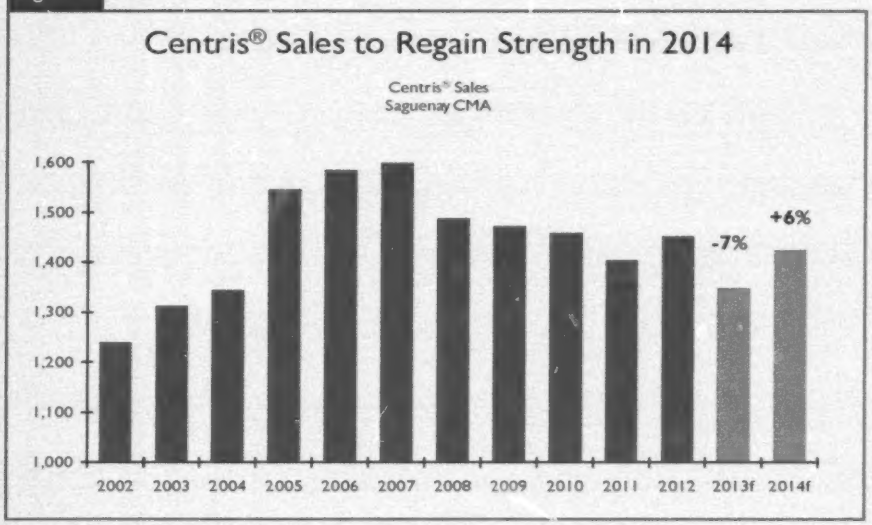
Mortgage rates are not expected to increase until mid 2014. The anticipated small and steady increases in mortgage rates will lead to somewhat higher mortgage rates by the end of 2014. However, these rates will remain low, by historical standards, over the forecast horizon.

Centris® sales to regain strength in 2014

In 2012, Centris® sales recorded a 3-per-cent increase, but the resale market evolved in two different directions. At the beginning of the year, sales were first stimulated by employment growth. Starting in the third quarter of 2012, as employment began to decline, sales slowed down and stayed at the same level until 2013. In the first quarter of 2013, transactions were down by 15 per cent year over year, which led to a 16-per-cent increase in active listings during the same period. The joint changes in supply and demand at the beginning of 2013 caused market conditions to ease and become balanced after having favoured sellers.

Sales are expected to increase gradually in the second half of the year, as the employment level will

Figure 4



Source: Centris® statistics
f: Forecasts

stabilize and buyers will have more choice on the existing home market. However, the anticipated rise will not be sufficient to avoid an annual decrease. Centris® sales will register a drop of 7 per cent in 2013, with 1,350 transactions, down from 1,451 in 2012.

The relatively slow pace of sales will drive up active listings by 10 per cent over the year. Market conditions are already balanced since the beginning of 2013 and will remain this way throughout the year. Since buyers will have more room to negotiate than in 2012, this will ease the upward pressure on prices. From 4.6 per cent between 2011 and 2012, the growth in the average Centris® price will slow down in 2013 to 2.9 per cent. The average price will therefore reach $191,500 this year.

In 2014, the gradual increase in transactions will continue. In fact, the resilience of the labour market, which will grow slightly, and the low mortgage rates will help sales recover somewhat. Also, the broader choice on the market for buyers will increase buying opportunities. This will make it easier for buyers to find a property meeting their needs. Finally, the slower growth in prices on the resale market in 2013 and 2014 will slightly widen the gap compared to new units. This trend on the market will potentially attract a greater number of buyers to the resale market, where units are more affordable than on the new home market.

Overall, Centris® sales will increase by almost 6 per cent in 2014. This rise will not be sufficient however to completely restore sales volumes to the 2012 level. In fact, 1,425 transactions are anticipated in 2014, while 1,451 sales had been recorded in 2012. Despite the tightening market in 2014, supply will remain abundant such that market conditions will remain balanced. These market conditions will always be favourable to a modest growth in prices. The average Centris® price will reach $196,500 in 2014, for a rise of 2.6 per cent.

New home market to slow down in all segments

Housing starts in the Saguenay area will decline over the next two years. Overall, the decreases will be 10 per cent in 2013 and 12 per cent in 2014. Despite this slowdown, the new home market will remain supported by employment, which will remain above the level for the years 2005 to 2011, and by low mortgage rates.

Traditional rental housing construction picked up in recent years. The increase in supply particularly contributed to pushing up the vacancy rate of rental units last year, as this rate rose from 1.4 per cent in October 2011 to 2.0 per cent a year later. Given the many units under construction at the beginning of 2013, market conditions will ease further, which will cause developers to start fewer new projects in 2013 and 2014.

Likewise, the major easing of retirement rental market conditions will reduce the production of new projects between now and 2014. In fact the apartment vacancy rate reached 19.3 per cent in February 2012, compared to 3.8 per cent in February 2011. In sum, rental housing starts, for all segments combined, will fall from 389 units in 2012 to less than 340 units 2013 and 250 units in 2014.

Freehold housing starts[2] will also drop by 9 per cent in 2013, and then by 2 per cent in 2014. The decrease in employment and the greater supply

[2] Freehold homes refer to dwellings where the owner also holds the title of ownership to the land (single-detached, semi-detached and row houses, as well as duplexes).

on the resale market will reduce the demand for new homes in 2013. In 2014, the slowdown will be less significant thanks to the resilience of the labour market, but the supply of existing homes will continue to decrease the demand for new homes.

More specifically, single-detached housing starts will fall from 400 units in 2012 to 365 in 2013 and then to 350 in 2014. It should be noted that multi-unit freehold homes will buck this downward trend in 2014. The main housing types in this category, semi-detached and row homes, will stand out as housing demand is increasingly shifting toward smaller, more affordable houses. They are therefore better suited to the preferences and needs of households who are getting older or composed of fewer people. Overall, multi-unit freehold home starts will decrease from 274 units in 2012 to nearly 250 in 2013 and 2014.

As well, the housing demand observed in 2012 continued to stimulate condominium housing starts in early 2013. However, the abundant supply on the existing condominium market, where conditions favour buyers, will reduce the need for new units next year. In short, starts will therefore remain stable at 50 units in 2013 and then fall to 30 units in 2014.

Increase in supply to cause rental market to ease in 2013 and 2014

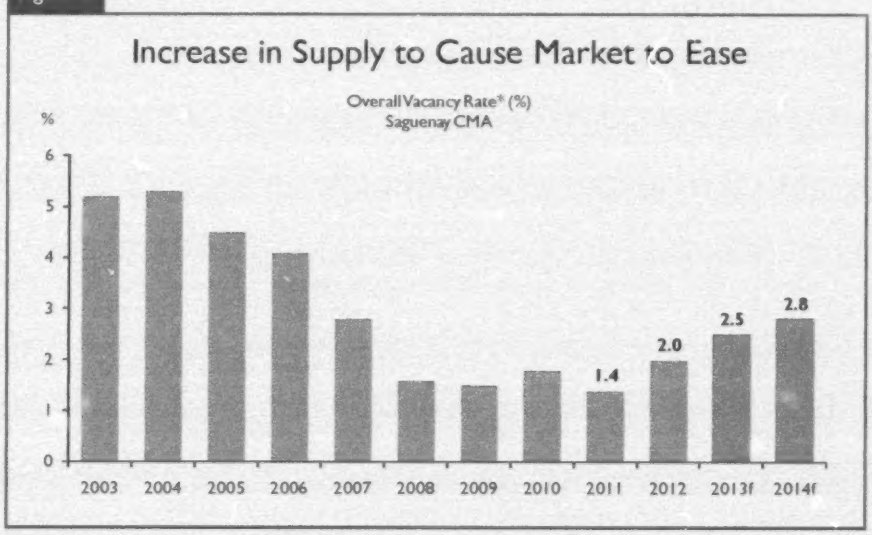
Rental market conditions had been tight in the area for several years. While the demand for rental dwellings was stimulated by the favourable economic environment, the addition of new units was relatively modest. Since 2010, however, the pace of new construction has picked up. And, more recently, the vacancy rate climbed slightly from 1.4 per cent to 2.0 per cent.

Over the forecast period, supply will outpace demand. In fact, the completion of a greater number of units will cause market conditions to ease again, such that the vacancy rate will rise from 2.0 per cent in October 2012 to 2.5 per cent in October of this year. In addition, rental housing demand will continue to increase slightly in 2013. The rise in demand will persist among people 55 years or older, but will remain stable among young households. In the case of the latter, the slowdown in the movement to homeownership will make up for the decrease in demand caused by the fall in employment.

Next year, however, the easing of the market will be marginal, as the vacancy rate should increase to 2.8 per cent in October 2014 from 2.5 per cent in October 2013. Fewer new rental housing units will be added to the supply, and the slightly improved labour market performance will sustain demand in this market segment.

The average rent for two-bedroom apartments will rise from $549 in 2012 to $565 in 2013 and then to $575 in 2014. Several factors will contribute to the increase in the average rent in the Saguenay area: rental market conditions that remain, all in all, relatively tight and the addition of new units to the housing stock.

Figure 5



Source: CMHC
f: Forecasts
* Privately initiated structures of three or more apartments (excluding seniors' housing units)

Forecast Summary Saguenay CMA Fall 2013							
	2010	2011	2012	2013f	% chg	2014f	% chg
New Home Market							
Starts:							
Single-Detached	380	475	400	365	-8.8	350	-4.1
Multiples	403	384	717	635	-11.4	530	-16.5
Starts - Total	783	859	1,117	1,000	-10.5	880	-12.0
Average Price ($):							
Single-Detached	192,703	203,165	221,202	228,000	3.1	235,000	3.1
Median Price ($):							
Single-Detached	180,000	180,000	200,000	205,000	2.5	210,000	2.4
New Housing Price Index (% chg) (Que.)	3.1	2.6	1.7	n.d.	-	n.d.	-
Resale Market[1]							
Centris® Sales	1,459	1,405	1,451	1,350	-7.0	1,425	5.6
Centris® Active Listings	713	810	905	1000	10.5	960	-4.0
Centris® Average Price ($)	167,427	177,908	186,178	191,500	2.9	196,500	2.6
Rental Market[2]							
October Vacancy Rate (%)	1.8	1.4	2.0	2.5	-	2.8	-
Two-bedroom Average Rent (October) ($)	535	557	549	565	-	575	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.49	3.52	3.17	3.00 - 3.25	-	3.25 - 3.75	-
Mortgage Rate (5 year) (%)	5.61	5.37	5.27	5.00 - 5.50	-	5.25 - 5.75	-
Annual Employment Level	69,500	68,000	72,200	71,000	-1.7	71,500	0.7
Employment Growth (%)	-1.3	-2.2	6.2	-1.7	-	0.7	-
Unemployment rate (%)	8.1	7.0	7.6	7.8	-	8.0	-
Net Migration	-195	-76	-49	-50	2.0	0	s.o.

The Centris® system contains all the listings of Québec real estate brokers.

[1] Source: Centris® Statistics

[2] Privately initiated rental apartment structures of three units and over

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Statistics Canada (CANSIM), Centris® Statistics. CMHC Forecast (2013-2014)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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